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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
COMPANY FOR APPROVAL OF THE
COMPANY'S 2012 DEMAND SIDE
MANAGEMENT IMPLEMENTATION
PLAN

DOCKET NO. E-01345A-11-0232

**SWEEP SUPPLEMENTAL
COMMENTS ON THE APS
2012 DSM IMPLEMENTATION PLAN**

SUPPLEMENTAL COMMENTS OF THE SOUTHWEST ENERGY EFFICIENCY PROJECT

The Southwest Energy Efficiency Project ("SWEEP") appreciates the opportunity to submit supplemental comments¹ in response to the Second Revised Recommended Order filed by Staff on December 29, 2011, regarding the Arizona Public Service Company ("APS" or "Company") Application for Approval of its 2012 Demand Side Management Implementation Plan ("Plan"). SWEEP also offers comments on the amendments proposed by Commissioners.

I. SWEEP Supports Commission Approval of the Energy Efficiency Opportunities Found Cost-Effective by Staff. SWEEP Believes These Opportunities Are Cost-Effective, in the Public Interest, and Will Deliver Significant Benefits and Utility Bill Reductions for Customers.

The proposed portfolio is cost-effective, will deliver annual energy savings that exceed 480 GWh, and will achieve about \$195 million in net benefits for customers (per the APS Revised Plan, June 24, 2011). In addition, the existing and new cost-effective opportunities recommended for Commission approval will serve more APS customers and provide more ways for customers to save money and energy on their utility bills. Highlights include:

- The proposed performance-based path for the Home Performance with ENERGY STAR[®] program, which will offer customers and program contractors greater flexibility.
- The proposed modifications to the Multi-Family Energy Efficiency Program, which will offer greater flexibility so that renters have more opportunities to save on their utility bills.
- The proposed Energy Codes & Standards Support Project, modeled after a nationally-recognized Salt River Project Program that is projected to save *nearly half a million MWh by 2020*.²
- The proposed non-residential measures, which will provide additional opportunities for large businesses, small businesses, and schools to conserve.

¹ SWEEP's earlier comments were filed with the Commission on January 6, 2012.

² See "In Support of Clean & Efficient Energy: SRP Position on Model Energy Codes":

<http://www.srpnet.com/environment/earthwise/pdfx/spp/ModelEnergyCodes2011.pdf>

II. SWEEP Comments on Several Proposed Commissioner Amendments

A. Kennedy Proposed Amendment 2. SWEEP supports Kennedy Proposed Amendment 2, which would enable APS to receive up to one-third credit for documented, verified energy savings from appliance energy efficiency standards that APS supports. This same language was unanimously adopted by the Commission in its January 2012 approval of the UniSource Electric 2011-2012 Energy Efficiency Implementation Plan.

SWEEP believes that the Commission should have all available tools at its disposal for the delivery of cost-efficient energy savings – especially tools that can deliver customer savings at low costs to ratepayers and that have the potential to reduce long-term energy efficiency (EE) program costs. By assuring a minimum level of EE performance for household and business products, appliance standards represent one such cost-effective tool that provides ratepayers, especially renters, tenants, and new homeowners, with the ability to save money and energy. Appliance standards are generally developed through a consensus process involving industry, manufacturers, and the business community. Once implemented, appliance standards can reduce the cost of utility EE programs, such as consumer products programs, by diminishing the need for or reducing the level of ratepayer-funded rebates over time.

SWEEP supports Kennedy Proposed Amendment 2, which would enable the Company to count up to one-third of the energy savings resulting from energy efficiency appliance standards, if the energy savings are quantified and reported through a measurement and evaluation study undertaken by the Company, and the Company demonstrates and documents its efforts in support of the adoption or implementation of the energy efficiency appliance standards. This approach and the language are consistent with the language in the Gas Energy Efficiency Rule, which explicitly allows savings from appliance standards to count towards achievement of the Gas EE Standard,³ and the language unanimously adopted by the Commission in its January 2012 approval of the UniSource Electric 2011-2012 Energy Efficiency Implementation Plan.

SWEEP also supports APS earning up to one-third credit (versus one-hundred percent credit) toward these activities because this level of credit recognizes the fact that the appliance standard development and adoption process is complex and multi-faceted, involving many stakeholder efforts and multiple influences in addition to utility support and interaction, for example, during the development and consensus-building processes. Allowing one-third credit is reasonably consistent with the partial influence that the utilities have in the multi-party processes to develop and implement the standards, as has been documented extensively by measurement and evaluation efforts in California.

B. Revised Pierce Proposed Amendment 1. SWEEP does not support the portion of Revised Pierce Proposed Amendment 1 that addresses energy savings credit from appliance energy efficiency standards. As noted above, SWEEP recommends addressing the issue of credit for appliance standard energy savings by approving the language in Kennedy Proposed Amendment 2, which was unanimously adopted by the Commission in its January 2012 approval of the UniSource Electric 2011-2012 Energy Efficiency Implementation Plan.

³ The Gas EE Rule in R14-2-2504(E) reads, “An affected utility may count toward meeting the energy efficiency standard up to one-third of the energy savings resulting from energy efficiency building codes and up to one-third of the energy savings resulting from the energy efficiency appliance standards, if the energy savings are quantified and reported through a measurement and evaluation study undertaken by the affected utility, and the affected utility demonstrates and documents its efforts in support of the adoption or implementation of the energy efficiency building codes and appliance standards.”

1
2 SWEEP does not support the appliance energy efficiency standard language proposed in Revised
3 Pierce Proposed Amendment 1 (referencing changes on page 6) because the language in the
4 proposed amendment does not require (a) that the energy savings from appliance standards be
5 quantified and reported through a measurement and evaluation study undertaken by the
6 Company, or (b) that the Company demonstrate and document its efforts in support of the
7 adoption or implementation of the energy efficiency appliance standards. Consequently, Revised
8 Pierce Proposed Amendment 1 would enable the Company to receive credit for activities in
9 which it did not participate or even support.

10
11 As stated in section II.A. above, SWEEP recommends addressing the issue of credit for
12 appliance standard energy savings by approving the language in Kennedy Proposed Amendment
13 2, which was unanimously adopted by the Commission in its January 2012 approval of the
14 UniSource Electric 2011-2012 Energy Efficiency Implementation Plan.

15
16 In terms of the remaining language in Pierce Proposed Amendment 1, SWEEP believes it is very
17 important to provide adequate funding to achieve the level of energy savings required by the
18 Energy Efficiency Standard in 2012, as these energy savings are what reduce utility bills for
19 residential and business customers – the beneficiaries of the EE programs. If APS and
20 Commission Staff confirm that the level of reduced funding as set forth in Pierce Proposed
21 Amendment 1 is still adequate to achieve the required energy savings in 2012, then SWEEP can
22 support the remaining language in Pierce Proposed Amendment 1.

- 23
24 **C. Kennedy Proposed Amendment 1. SWEEP supports Kennedy Proposed Amendment 1,**
25 **which would enable Commission Staff to seek funds from the National Association of**
26 **Regulatory Utility Commissioners (NARUC) SERCAT program or the U.S. Department of**
27 **Energy's SEEACTION Technical Assistance Program to retain an independent third-party**
28 **consultant to assist a Staff-led working group, including the Companies and interested**
29 **stakeholders, to develop one model and consistent input values for accurate and timely**
30 **cost-effectiveness analysis of EE programs and measures.**

31
32 **This same framework and process was unanimously adopted by the Commission in its**
33 **January 2012 approval of the UniSource Electric 2011-2012 Energy Efficiency**
34 **Implementation Plan.**

35
36 SWEEP strongly supports Staff and the Companies (APS, Tucson Electric Power Company,
37 UniSource, etc.) using one model and consistent input values for the cost effectiveness analysis
38 of proposed and existing EE programs and opportunities. SWEEP also supports making the cost-
39 effectiveness model and the input values available to the public. Such synchronization and
40 disclosure would be beneficial because it would:

- 41
42 ■ Boost transparency for both the EE plan development and review process and for the
43 integrated resource planning process.
- 44
45 ■ Streamline the EE plan development and review process, providing customers with
46 opportunities to save money on their bills sooner and freeing up time for Staff to focus on
47 more strategic analysis of the EE plans.
- 48
49

- 1 ■ Allow other parties and market actors to propose and review enhancements or improvements
2 to the EE plans more easily.
- 3
- 4 ■ Provide a consistent platform (one model) across the state for the evaluation and review of
5 EE programs and opportunities. (Given that the EE Standard is a statewide standard, it
6 follows that a statewide model for EE analysis should be used – as is the practice in other
7 states.)
- 8
- 9 ■ Provide a platform and knowledge infrastructure that co-ops and smaller utilities could use,
10 thereby reducing the administrative costs of these entities in the design of their energy
11 efficiency programs.
- 12

13 Notably, many other states use one model or screening tool for the cost-effectiveness analysis,
14 and support the analysis by maintaining a reasonably up-to-date Technical Reference Manual
15 that documents the key input values.

16

17 SWEEP has observed that the Companies and Staff often conclude that the same EE
18 opportunities have different benefit-cost ratios. (In the vast majority of these cases the numbers
19 are different but both analyses show the measures to be cost-effective). In addition, the
20 Companies' values are sometimes greater than Staff's and vice versa. The fact that the
21 Companies and Staff have found measures to be different in terms of cost-effectiveness has
22 concerned SWEEP. Indeed, we feel that is absolutely imperative to have an accurate and full
23 understanding of the costs and benefits associated with any EE investment in order to ensure that
24 ratepayer dollars are allocated as prudently and efficiently as possible, *especially* in light of
25 Arizona's increasing investment in EE over the next decade and how this investment impacts
26 resource planning.

27

28 Staff has recommended that in all future EE plans, the Company use the same input values and
29 methodology as Staff. SWEEP's concern about Staff's recommendation is that it does not
30 adequately resolve some of our aforementioned concerns such as why the Companies' values are
31 sometimes greater than Staff's and vice versa or how energy efficiency should be treated during
32 the integrated resource planning process. Further, the model that Staff has been using is fairly old
33 and a new model should improve the usability of the model (thereby saving time) and increase
34 the transparency of the analysis. Finally, Staff's recommendation does not resolve concerns
35 raised by Commissioners that all cost and benefits are fully being accounted for in the evaluation
36 of energy efficiency opportunities.

37

38 SWEEP supports Kennedy Proposed Amendment 1 because it would establish a framework and
39 process to address these issues. This same framework was unanimously supported by the
40 Commission in its approval of the 2011-2012 UniSource Electric Energy Efficiency
41 Implementation Plan and would provide an invaluable opportunity for Commissioners and the
42 public to gain a deeper and more thorough understanding of how EE investments are analyzed,
43 evaluated, and measured.

44

45

1 **D. Burns Proposed Amendment 3. SWEEP notes that Measurement, Evaluation and Research**
2 **(MER) costs and performance incentives are currently accounted for in the EE cost-**
3 **effectiveness analysis in Arizona, at the portfolio level, which SWEEP feels is appropriate**
4 **and is common practice in other states. Further, as noted above, SWEEP supports**
5 **Kennedy Proposed Amendment 1 because it would establish a framework and process to**
6 **address cost-effectiveness issues, including approaches to accounting for MER costs and**
7 **performance incentives. Therefore, SWEEP does not believe Burns Proposed Amendment**
8 **3 is necessary and instead recommends that the best approach to address any issues would**
9 **be through the process set forth in Kennedy Proposed Amendment 1.**

10
11 SWEEP very much values Commissioner Burns' focus on cost-effectiveness and cost-efficiency,
12 as we also strongly believe that investments made on behalf of ratepayers should be cost-
13 effective, cost-efficient in their use of ratepayer funding, and maximize value.

14
15 While SWEEP appreciates the intent of Burns Proposed Amendment 3, we believe these issues
16 would be best addressed through a systematic, methodical process that thoroughly examines both
17 the costs and benefits of energy efficiency and the treatment of the costs and benefits. Such a
18 process would ensure that energy efficiency considerations are balanced, and not skewed
19 inadvertently in any one direction. The approval of Kennedy Proposed Amendment 1 would
20 establish the framework for such a process to take place.

21
22 SWEEP also notes that the costs of Measurement, Evaluation and Research (MER) can be
23 "lumpy" and time variable. In any one year, MER might be highly focused on a particular
24 program or measure and that focus can shift with time. For this reason, the allocation of MER
25 costs at the program-or measure-level would be complex, and would also result in uneven
26 findings solely because an MER study is performed in one year but not in the next. For this
27 reason, it is standard practice to consider MER costs at the portfolio-level, as is done in Arizona.

28
29 In addition, SWEEP views performance incentives as an important policy instrument that the
30 Commission should exercise to influence and direct energy efficiency outcomes – not a cost of
31 energy efficiency programs or measures. If states do include performance incentives in the cost-
32 effectiveness analysis, it is most common to consider performance incentives at the portfolio-
33 level, as is done in Arizona.

34
35 In sum, MER costs and performance incentives are currently accounted for in the cost-
36 effectiveness analysis in Arizona, at the portfolio level, which SWEEP feels is appropriate and is
37 common practice in other states.

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39 Thank you for the opportunity to submit these comments.

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43 Respectfully submitted this 26th day of March 2012 by:

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Jeff Schlegel & Ellen Zuckerman
47 Southwest Energy Efficiency Project
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1 ORIGINAL and thirteen (13) copies filed this 26th day of March 2012, with:

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3 Docket Control

4 ARIZONA CORPORATION COMMISSION

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7 COPIES of the foregoing sent via email on March 25, 2012, to:

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9 All Parties of Record